

DEPARTMENT OF THE NAVY
Office of the Secretary
Washington, DC 20350-1000

SECNAVINST 5120.3H
Pers-662
13 January 1994

SECNAV INSTRUCTION 5120.3H

From: Secretary of the Navy
To: All Ships and Stations

Subj: UNITED STATES SAVINGS BONDS
PROGRAM

Ref: (a) DOD Directive 5035.6 of 9 Feb 79
(NOTAL)
(b) SECNAVINST 5211.5D

Encl: (1) Savings Bonds Awards

1. Purpose. To reissue policy and administrative provisions for promoting the United States Savings Bonds Program in the Department of the Navy (DON), and as prescribed by reference (a). This is a complete revision and the instruction should be reviewed in its entirety.

2. Cancellation. SECNAV Instruction 5120.3G.

3. Policy

a. DON policy is to support and promote the United States Savings Bonds Program. This support will include regular information on Savings Bonds and sponsorship of an annual campaign to inform members of the advantages of Savings Bonds as a means of systematic savings.

b. DON participation in public events and special projects to promote Savings Bonds is authorized within the limits of existing regulations and local conditions.

c. The Payroll Savings Plan for civilian personnel and the Savings Bonds Allotment Plan for military personnel are available for the convenient purchase of bonds.

4. Information

a. Savings Bonds are a safe, convenient, and systematic vehicle for establishing a savings habit. Bonds are purchased at one-half their face amount and are available in increments starting at \$5 a month for military and \$5 each pay period for civilians.

Once the authorization is made, the savings are automatically set aside. When the purchase price of a bond has accrued, the Savings Bond is issued. Denominations available through payroll savings range from \$100 to \$1,000. The following denominations are available through financial institutions: \$50, \$75, \$100, \$200, \$500, \$1,000, \$5,000, and \$10,000. Financial institutions qualified as Savings Bonds Agents accept the funds and purchase application for Series EE Bonds and forward the order to a Federal Reserve Bank for issuance.

b. Market-based Variable Interest Rate. Savings Bonds pay interest at a market-based variable interest rate. This rate is based on 85 percent of the average yield on 5-year Treasury marketable securities when bonds are held for 5 years or longer. The rate of interest is recalculated every 6 months to ensure a competitive return during periods of changing market conditions. There is no ceiling on how much bonds may earn, but there is a built-in minimum guaranteed rate. Series EE Bonds purchased through October 1986 are guaranteed to earn a minimum of 7.5 percent through their original maturity (10 years) when held 5 years or longer; bonds purchased on or after 1 November 1986 and before 1 March 1993, have a minimum rate of 6 percent through their original maturity (12 years) when held 5 years. Series EE Savings Bonds issued after March 1993 are guaranteed to earn a minimum of 4 percent through their original maturity (18 years) when held five years. The guaranteed rates for Series E Bonds and Savings Notes may be higher for current maturity periods. Market-based rates apply to Series E/EE Bonds and Savings Notes. Series H Bonds pay a fixed rate. See paragraph 4c(7) for information on Series H/HH Bonds.

c. Tax Benefits. Interest on Savings Bonds is exempt from state and local income taxes, and interest accrual may be deferred in the filing of Federal income taxes until the bond is redeemed or reaches final maturity. There are two plans that help individuals receive the tax benefit of U.S. Savings Bonds.

(1) The Education Tax Benefit. Savings Bonds purchased after 31 December 1989 may be exempt from Federal income tax on the interest if the proceeds are used to pay tuition and fees at institutions of higher learning. To be eligible for this tax program, owner(s) of bonds must be 24 years of age

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at the time of purchase. Income limitations also apply (see paragraph (4)). Bonds may be used for the educational expenses of the owner(s), spouse, or legal dependent of the owner(s).

(2) Registration. Bonds may be registered in single ownership or co-ownership (only with a spouse as co-owner), or with another person listed as a beneficiary, when applying for the education tax exemption benefit. Please note: Children may not be listed as an owner or co-owner on these bonds, but may be listed as beneficiaries. Therefore, if a grandparent wishes to purchase bonds for a grandchild, the bonds may be listed in one parent's name with the child as beneficiary or in both parents' names as co-owners.

(3) Value of Bonds Redeemed. In the year bonds are redeemed, the value of the bonds redeemed must be equalled or exceeded by tuition and fees paid to a qualified post-secondary educational institution, net of grants or scholarships, to gain full benefits.

(4) Income Limitations. Income limitations apply in the year of redemption. In 1993, married couples (who must file jointly for the year in which the tax exemption is claimed to be eligible for this program) whose modified adjusted gross income was less than \$68,250 would be eligible for a full Federal tax exemption. Couples whose income in 1993 was between \$68,250 and \$98,250 would be eligible for a partial exemption based on their income. Single taxpayers in 1993 were eligible for a full exemption with income of \$45,500 or less and a partial exemption with an income level between \$45,500 and \$60,500. For future years, the limits are indexed for inflation. Families whose present income, or the anticipated income is too high to qualify for this tax exemption, may consider purchasing bonds in the child's name. This alternative method is explained in paragraph 4c(5).

(5) Savings Bonds Purchased In Child's Name. U.S. Savings Bonds may be registered in a child's name (parent or purchaser must be listed as beneficiary, not co-owner). If the child does not have a Social Security Number, one must be obtained from the nearest Social Security Administration office. The following options are available for reporting earned interest on a dependent child's income.

(a) Annual Reporting of Income. An individual may earn up to \$600 in unearned income

(interest/dividends) in a year without incurring a tax liability. Income between \$600 and \$1,200 will be taxed at the child's rate and income in excess of \$1,200 will be taxed at the parent's rate until the child reaches age 14. After age 14, all interest will be taxed at the child's rate. At a 4 percent interest rate, a child must have approximately \$15,000 in bonds to reach the \$600 limit and approximately \$30,000 in bonds to reach the \$1,200 limit. At a 6 percent interest rate, a child must have approximately \$10,000 in bonds to reach the \$600 limit and approximately \$20,000 to reach the \$1,200 limit. To be eligible for this method, a tax form must be submitted in the child's name with a declaration of intent to declare income on an annual basis. A tax form should be submitted after the first year of purchase, although it may be done in later years. No further returns need to be filed until the child's unearned income exceeds \$600 or the current level of tax-free unearned income (assuming no other income).

(b) Parents whose children may have significantly large unearned income may also choose to defer reporting interest on the child's Savings Bonds until the child reaches age 14 if, after careful analysis, it proves to be more beneficial. The parent may then report the deferred interest and change to annual reporting. At that time all interest is subject to the child's tax rate. (The Tax Reform Act of 1986 imposed the parent's rate on the child's unearned income in excess of annual limits before age 14.) These limits are subject to periodic changes.

(6) Deferral to Retirement. Tax advantages may be realized by holding bonds until retirement when the individual may be in a lower tax bracket. At that time, bonds may be cashed as needed to supplement retirement income. The tax-deferred interest is then reported as income on the Federal tax return. Additional tax-deferral may be realized by converting Savings Bonds Series E/EE and Savings Notes (Freedom Shares) for income-producing Series HH Bonds. (See paragraph 4c(7) for information on Series HH Bonds.)

(7) Conversion to Series HH Bonds. By trading Series E/EE Savings Bonds and Savings Notes (Freedom Shares) for Series HH Bonds, which pay interest semi-annually by check, savers may defer taxes due on the Series E/EE Bonds and Savings Notes (Freedom Shares) until the HH Bonds are cashed or reach maturity in 20 years. Series HH Bonds are not available through payroll savings nor

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are they issued for cash, but are sold in exchange for Series E and/or EE Bonds and Savings Notes with a total redemption value of \$500 or more. While the current interest rate on Series HH Bonds is 4 percent, older Series H/HH Bonds will continue to receive their previous guaranteed interest rate (either 8.5, 7.5, or 6 percent) to the end of their original or current extended maturity period. Series HH Bonds are available through Federal Reserve Banks or Branches or from the Treasury Department, Bureau of Public Debt, Washington, D.C. 20239-0001. Exchange transactions may be handled at local financial institutions which will act as intermediaries with the Federal Reserve Banks.

5. Voluntarism. Practices involving coercion to induce an individual to make purchases under the program, or reprisals or threats of reprisal for failing to do so, destroy the spirit of voluntarism and contravene Executive policy. The program will include the following conditions:

a. No participation quotas may be set for any individual, organization, or station under the Savings Bonds Program or campaign although goals may be established by the Secretary of Defense regulations.

b. Commanders, organization heads, and other managers will advise personnel of the value of savings and of the benefits of the Savings Bonds Program and will provide factual information on various ways of saving. Canvassing on an individual basis is an integral part of the Navy's Savings Bonds Campaign and is approved.

c. Granting special favors, privileges, or entitlements, such as special pass or leave privileges, as an inducement to purchase Savings Bonds is not allowed. Establishment of an expressed or implied requirement to purchase Savings Bonds as a precedent to normal career progression or to the granting of normal privileges and entitlements is not permitted.

d. Under the Privacy Act, reference (b), access to records concerning individual participation in the Savings Bonds Program may be necessary "to personnel of the Department of the Navy or other components of the Department of Defense (DOD) who have

a need for the record in the performance of their duties, provided this use is compatible with the purpose for which the record is maintained." Disclosure is limited to personnel with direct functional relationship to the campaign, for campaign purposes only, and to personnel (payroll and allotment clerks) who require access to records in the discharge of their duties. These personnel shall be briefed on their responsibilities under the Privacy Act. Supervisors not directly related to a campaign requirement are not permitted access to records.

e. An individual may increase his or her allotment or request cancellation of his or her Savings Bond payroll allotments. Action on such a request shall not be contingent upon personal contact between the member and any individual for the purpose of inquiring into the reasons for the request or similar purposes.

6. Awards Program. A Savings Bonds Awards Program, providing awards for high levels of unit participation is based on guidelines established by the President's Interagency Savings Bonds Committee. Eligibility criteria and the method for requesting awards under the Awards Program are contained in enclosure (1).

7. Organization and Administration

a. The Secretary of the Navy is responsible for the general administration of the United States Savings Bonds Program within DON and is an executive member of the President's Interagency Savings Bonds Committee. The Secretary will designate an official from the department to serve as alternate member.

b. The Chief of Naval Personnel, under the command of the Chief of Naval Operations, is responsible for the coordination and direction of the Savings Bonds Program within DON; for providing periodic internal information on support of policy objectives in paragraph 3; for maintaining liaison with the Treasury Department in matters relative to this program; for informing and coordinating matters of significance with the Commandant of the Marine Corps (CMC); and for the internal administrative operation and promotion of the program within the Navy. CMC is

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responsible for the internal administrative operation and promotion of the program within the Marine Corps.

FREDERICK F. Y. PANG
Assistant Secretary of the Navy
(Manpower and Reserve Affairs)

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SAVINGS BONDS AWARDS

INDIVIDUAL AND CAMPAIGN AWARDS

Treasury Annual Citation (10" x 8")

Any individual qualifies who displays outstanding leadership or accomplishment in advancing the unit's Savings Bonds Program. Awards will be inscribed with the recipient's name by the requesting command/activity. Citations are signed by the Secretary of the Treasury and may be co-signed by the command/activity's commander/commanding officer or appropriate official.

Commands/activities who have a minimum of 25 percent of military and civilians enrolled in the Payroll Savings Plans qualify for the Treasury Annual Citation. The citation will be inscribed with the command's name by the requesting command/ activity.

In an effort to increase and encourage recognition of those individuals who assist in the promotion of the Savings Bonds Program, Treasury Annual Citations may be requested in bulk for use by individual commands and activities.

Department of the Treasury Minute Man Honor Roll Award
(12" x 16")

The Department of the Treasury Minute Man Honor Roll Award will be presented to activities with 25 or more personnel who achieve or maintain a participation rate of 50 percent or more at the completion of the annual Savings Bonds Campaign. This award is printed on quality stock paper, features the U.S. Savings Bonds Minute Man logo and is suitable for framing. The Minute Man Honor Roll is presented to activities and units and not to individuals. This award replaces the complimentary Minute Man Flag and the Minute Man Banner. Activities or units with 50 percent or more participation in the Savings Bonds Program may purchase the flag or banner. The purchase order should indicate the organization purchasing the flag or banner and should be submitted to the appropriate Savings Bonds administrator (see below). Prices for nylon flags are:

<u>Size</u>	<u>Single Flag</u>
3' x 5'	\$30.00
5' x 8'	\$60.00
Minute Man Banner	\$15.00

Prices are subject to change.

Enclosure (1)

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Request for Awards:

Requests for Savings Bonds Awards should be submitted to the appropriate Navy or Marine Corps Savings Bonds Administrator:

Navy activities:

CHIEF OF NAVAL PERSONNEL
BUREAU OF NAVAL PERSONNEL
2 NAVY ANNEX
PERS 662J
WASHINGTON DC 20370-6620

Marine Corps activities:

COMMANDANT OF THE MARINE CORPS (RFR)
WASHINGTON DC 20380-1775